



**CENTRAL ASIA REGIONAL ECONOMIC COOPERATION**  
**Summary of Proceedings**  
**Senior Officials' Meeting**  
**April 2008**

**A. Introduction**

1. A Senior Officials' Meeting (SOM) of the Central Asia Regional Economic Cooperation (CAREC) Program was convened in Baku, Azerbaijan, on 24-25 April 2008.<sup>1</sup> The SOM was characterized by open and detailed discussion focused on (i) developments in the transport and trade facilitation sectors and preparation of an Implementation Action Plan for the Transport and Trade Facilitation Strategy (TTFS); (ii) a draft Trade Policy Strategic Action Plan (TPSAP); (iii) a draft Energy Sector Strategy; (iv) an update on activities of the CAREC Institute; (v) preparations for the 7<sup>th</sup> Ministerial Conference planned for November 2008 in Baku, Azerbaijan; and (vi) potential approaches for expanding interaction with development partners.

2. The SOM was chaired by Samir Veliyev, Executive Director, Ministry of Economic Development, Azerbaijan, and co-chaired by Sean O'Sullivan, Deputy Director General, Central and West Asia Department, Asian Development Bank.

**B. Discussions**

3. The SOM began with an overview of the main Program deliverables for 2008. The SOM considered that the main documents to be submitted for endorsement by the 7<sup>th</sup> Ministerial Conference include:

- A draft Implementation Action Plan for the Transport and Trade Facilitation Strategy;
- A draft Trade Policy Strategic Action Plan;
- A draft Energy Sector Strategy; and
- A draft CAREC Institute Work Plan for 2009-2011.

In addition, the SOM will prepare a progress report on implementation of the Comprehensive Action Plan and a Report of Senior Officials to the 7<sup>th</sup> Ministerial Conference.

4. The meeting included detailed presentations on each of the four CAREC priority areas of transport, trade facilitation, trade policy, and energy. Detailed updates on activities in each

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<sup>1</sup> Delegations were present from the eight CAREC participating countries: Afghanistan, Azerbaijan, People's Republic of China (PRC), Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan. A representative of Turkmenistan attended as an observer. Representatives from the six partner multilateral institutions (MIs)—Asian Development Bank, European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Programme, and World Bank—contributed to the proceedings.

priority sector since the 6<sup>th</sup> Ministerial Conference were submitted to the SOM and are attached (Attachment 1: Transport; Attachment 2: Trade Facilitation; Attachment 3: Trade Policy; Attachment 4: Energy).

## **1. Transport and Trade Facilitation**

5. The SOM was updated on progress toward development of the Implementation Action Plan for the Transport and Trade Facilitation Strategy, including the proposed contents of the Action Plan, and next steps. A preliminary draft of the Action Plan was distributed to participants. The Action Plan will support broad-based actions including (i) infrastructure development and management; (ii) transit and customs improvement; (iii) economic development along priority corridors; (iv) development of sustainable transport and trade systems; and (v) proposed corridor monitoring approaches. Delegations expressed general support for the structure of the draft Action Plan and agreed (i) the Action Plan will be revised to incorporate comments received; (ii) the transport and trade facilitation investment program will be refined; and (iii) potential connections between corridors will be reviewed. Representatives from Kyrgyz Republic and Mongolia shared their experience in establishing a national transport and trade facilitation organization.

6. Delegations noted a number of issues that will benefit from further consideration, including options for mobilizing required funding for corridor development; the need for prioritization of proposed projects; options for establishing links between corridors; and interest in capacity building on logistics development.

7. The SOM supported the next steps toward finalization of the Action Plan, as follows (i) countries will provide comments to the Asian Development Bank on the draft Action Plan by 15 May 2008; (ii) comments will be incorporated and an advanced draft of the Action Plan distributed to countries prior to a joint meeting of the Transport Sector Coordinating Committee (TSCC) and Trade Facilitation/Customs Cooperation Committee (TF/CCC) planned for June 2008; and (iii) the joint meeting will review and seek to endorse the Action Plan for consideration by the next SOM.

## **2. Trade Policy**

8. The presentation on the draft TPSAP, adopted by the Trade Policy Coordinating Committee (TPCC) on 2 April 2008, focused on (i) the objectives and strategic approach of the TPSAP; (ii) policy actions to achieve the goals of the TPSAP; (iii) the need for close cooperation between the TPCC and the TF/CCC in formulating specific policy actions to be implemented in transit and border trade areas, and in monitoring their implementation; (iv) the broad sequencing of the policy actions; and (v) next steps toward finalization of the TPSAP. The SOM broadly endorsed the draft TPSAP, in particular its objectives of (i) achieving more open economies through World Trade Organization membership, and liberalization and simplification of trade regimes; and (ii) enhancing capacity building and knowledge transfer related to trade and trade policy. Delegations emphasized the importance of close cooperation among participating countries and of support from multilateral institutions in implementing the TPSAP.

9. A number of Delegations expressed a range of views on the degree of detail that should be included in the next draft of the TPSAP regarding the benchmarks for monitoring progress. Given the volume of consultation and discussion required with participating countries and the need for the TPCC and the TF/CCC to reach consensus on a set of specific actions in all policy areas covered by the TPSAP, the SOM agreed that a revised draft TPSAP with an indicative

timeline for policy actions should be prepared for discussion at the September 2008 SOM, and submitted for endorsement to the 7<sup>th</sup> Ministerial Conference, with a proposal that a detailed, time-bound program with benchmarks to monitor progress be finalized in 2009.

### **3. Energy**

10. The SOM was informed of the results of the 7<sup>th</sup> Energy Sector Coordinating Committee (ESCC) Meeting held on April 23, 2008, in Baku. During the meeting ESCC delegates confirmed their general approval of the thrust and content of the draft CAREC Energy Sector Strategy and provided specific comments and suggestions to further strengthen, develop, or clarify some aspects of the strategy, and to update information provided in some of the annexes. The essence of the comments expressed by the ESCC delegates are documented in the minutes of the meeting presented in Attachment 5.

11. A presentation of the key aspects of the strategy discussed by the ESCC delegates and proposed next steps in development of the strategy was made to the SOM delegates.

12. The SOM noted the results of the ESCC meeting and expressed support and general consensus for the proposed strategy. It agreed that comments made by their respective ESCC delegates during the ESCC meeting on 23 April 2008 would be provided to the World Bank by 15 May 2008. The SOM directed that the draft strategy be revised and updated in light of these comments and be submitted to the September 2008 SOM for subsequent consideration by the 7<sup>th</sup> Ministerial Conference.

### **4. CAREC Institute**

13. The SOM was updated on progress regarding the CAREC Institute. The Institute is giving priority to training for Government officials, while also initiating research, dialogue, and outreach activities to deepen mutual understanding of regional cooperation opportunities and benefits. The Institute's primary audience is policy-makers and officials in CAREC countries. During 2008 the Institute will develop a firm work plan for 2009-2011 that will include (i) definition of the Institute's areas of focus; (ii) a multi-year training agenda; (iii) a multi-year research agenda; (iv) a CAREC leadership program agenda; and (v) a dialogue/outreach agenda. The work plan will be developed in consultation with all participating countries and multilateral institutions. The SOM expressed support for the priorities of the Institute and agreed it is appropriate to focus in 2008 on developing a solid and detailed medium-term (2009-2011) work plan for the Institute.

14. The SOM was briefed on training and research activities undertaken since the 6<sup>th</sup> Ministerial Conference and activities planned for the remainder of 2008. Research initiatives by CAREC partner multilateral institutions were introduced in areas including cooperation on water resources, agriculture, and environment issues; preferential trade agreements; and private sector participation.

15. The SOM welcomed the active training and research agenda, and requested the Secretariat to prepare a detailed draft CAREC Institute Work Plan for 2009-2011 for consideration by the September 2008 SOM. Delegations made various proposals for research and training activities, which the Secretariat will consider for inclusion in the CAREC Institute work plan.

## **5. Development Partners' Forum**

16. The SOM heard a presentation on possible approaches to establishing more substantial and consistent interaction between the CAREC Program and a broader array of development partners. The SOM agreed that greater interaction with a range of development partners active in the CAREC region will be beneficial in establishing a coordinated approach to development activities, improving access for CAREC countries to international experience and best practice in CAREC priority areas. The SOM endorsed an action-oriented sector approach to interaction with development partners focused on CAREC priority areas and with National Focal Points as key participants. The SOM requested the Secretariat to consider scheduling the Development Partners' Forum together with the Ministerial Conference.

## **6. Preparations for 7<sup>th</sup> Ministerial Conference**

17. The Chair recalled the main elements of the CAREC Vision included in the Joint Ministerial Statement at the 6<sup>th</sup> Ministerial Conference and proposed that the Program focus in 2008 on concrete actions to support the guiding principle of "Good Neighbors, Good Partners, Good Prospects". The Chair highlighted the importance of expanding efforts to enable greater private sector participation in the Program's priority areas.

18. The SOM was apprised of preparations for the 7<sup>th</sup> Ministerial Conference. In preparation for the Ministerial Conference a second SOM is planned for 25-26 September 2008, and will be preceded by a meeting of the TPCC on 23 September 2008. The 7<sup>th</sup> Ministerial Conference will be held in Baku in November 2008. A SOM will be convened on 19 November 2008 in Baku followed by a day for bilateral and multilateral interaction among countries and partner organizations; and the Ministerial Meeting on 21 November. The agenda for the Ministerial Meeting will include consideration of a Joint Ministerial Statement and Report of Senior Officials, an Implementation Action Plan for the Transport and Trade Facilitation Strategy, a Trade Policy Strategic Action Plan, an Energy Sector Strategy, presentation of a joint statement by multilateral institutions, and the 2009 CAREC Program work plan. Delegations and multilateral institutions were requested to ensure high-level participation in the Ministerial Conference.

## **7. Closing Remarks**

19. Participants expressed high appreciation to the Government of Azerbaijan for chairing the SOM, for the warm hospitality extended to participants, and the excellent meeting arrangements. The SOM also expressed its appreciation to the Secretariat.



# **Transport Sector Status Report Update**

**Senior Officials' Meeting  
on Central Asia Regional Economic Cooperation  
24 – 25 April 2008  
Baku, Azerbaijan**

## **I. PROGRESS OF COOPERATION SINCE THE SENIOR OFFICIALS' MEETING IN SEPTEMBER 2007**

### **A. CAREC Transport and Trade Facilitation Strategy**

1. A Consultation Meeting (the Meeting) of the Transport Sector Coordinating Committee (TSCC) was convened to further discuss the draft CAREC Transport Sector Strategy (the Strategy) on 6 September 2007 in Manila, Philippines. Delegations from seven CAREC countries<sup>1</sup> and representatives of multilateral institutions (MIs) including the Asian Development Bank (ADB) and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) attended.<sup>2</sup> The consultants engaged by the TSCC Secretariat (the Secretariat) made a presentation on major findings of the Strategy. The Meeting in principle supported the Strategy and agreed on a statement of the Strategy. ADB gave a briefing on the main features of the CAREC Trade Facilitation Strategy, which was being prepared in conjunction with the Strategy.
2. A Senior Officials' Meeting (SOM) was convened in Manila, Philippines on 8-9 September 2007.<sup>3</sup> The SOM discussed, among others, integration of the draft strategies for transport and trade facilitation because of the links between transport and trade facilitation.
3. The 6<sup>th</sup> Ministerial Conference held in Dushanbe, Tajikistan on 3 November 2007 endorsed the integrated CAREC Transport and Trade Facilitation Strategy (TTFS), which included the six corridors (see a map attached).
4. The 3<sup>rd</sup> Regional Consultation Workshop on the TTFS was held in Tashkent, Uzbekistan on 30–31 January 2008. The Workshop discussed the TTFS report and the draft Action Plan for implementation. The consultants will finalize the TTFS report and revise the draft Action Plan by incorporating the comments received during the Workshop. UNESCAP, World Bank, and the World Customs Organisation made presentations on models for transport corridor performance measurements and possible structures for transport and trade facilitation. The Workshop participants agreed that an appropriate corridor performance measurement method would be identified for the TTFS and would be applied to the CAREC corridors.

### **B. Infrastructure Investments**

5. Major investments with external assistance since the SOM in September 2007 are as follows:
  - **Afghanistan.** In November 2007, ADB signed an agreement on the provision of a US\$176 million grant to finance the construction of a 143 kilometer (km) road from Bala Murghab to Leman. This road is part of the missing link of the Ring Road that connects major cities and provinces around the country. Completion of this link is essential for connecting northern Afghanistan to its western region. The Saudi Fund is expected to finance the construction of the last 50 km of the Ring Road to connect Leman to Armalick. ADB is exploring grants of \$180 million under a multitranche financing facility (MFF) to finance the road network development program during 2008–2009. IsDB will announce the tender for two road projects: (i) Andkhoy Aquina Road Project and (ii) Doshi-Pol-Khumri Road Project. These projects will be implemented during 2008-2010. Islamic Development Bank (IsDB),

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<sup>1</sup> The representative from Mongolia was not able to attend the Meeting.

<sup>2</sup> Japan International Cooperation Agency was represented as an observer.

<sup>3</sup> Delegations from the eight CAREC participating countries: Afghanistan, Azerbaijan, People's Republic of China (PRC), Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan attended the SOM. A representative of Turkmenistan attended as an observer. Representatives from the six multilateral institutions (MIs)—Asian Development Bank, European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Programme, and World Bank—contributed to the proceedings.

together with Saudi Fund for Development (SFD), will finance the construction of the Armalik-Harmaz Road Project.

- **Azerbaijan.** ADB approved two loans in the total amount of US\$200 million under the MFF for the Road Network Development Program, Project 1 on 4 October 2007 to finance the construction of a new expressway between Masalli and Astara on the southern corridor. ADB is preparing loans for financing projects 2 and 3 of the program for approval in 2008. The World Bank approved a US\$450 million loan for rail trade and transport facilitation on 27 March 2008, which will rehabilitate the East-West main line, procure new mainline locomotives, modernize the Azerbaijan Railway, and finance project support and capacity building. The World Bank will approve in April 2008 a US\$300 million loan as additional financing for the remaining part of the construction of a new expressway stretching between Alat and Masali on the southern corridor. The World Bank is also preparing two US\$200 million loans to further improve certain sections of the East-West and North-South Corridors, targeted for approval in 2008 and 2009, respectively. The European Bank for Reconstruction and Development (EBRD) plans to provide loans of US\$49 million in 2008 and US\$50 million in 2009 to finance the Baku to Samur road project. IsDB is planning to finance part of the Bahramtata-Biliswar highway in 2008. Tender for the Yevlakh Ganja Road Project was opened in March 2008 and the implementation will take place during 2008-2009. IsDB and SFD will finance this project.
- **Kazakhstan.** The Government gives high priority to the improvement of the Western Europe–Western China Transportation Corridor (the Corridor) running from Khorgos at the border with the People's Republic of China (PRC), through Almaty and Shymkent, to the western border with the Russian Federation. The Corridor has the total length of about 2,815 km and covers the whole section in Kazakhstan of the CAREC Corridor 1b. The Government plans to improve the Corridor by 2012 with assistance from external sources including ADB, EBRD, Islamic Development Bank (IsDB), and World Bank. ADB is examining options for financing 480 km of the Corridor, EBRD 102 km, and the World Bank 1,024 km. EBRD provides assistance to the Government to prepare the Almaty-Horgos section under a public-private partnership. ADB is preparing a MFF to finance the Project for approval in 2008. IsDB is expected to finance a ring road in Almaty. The Government has completed 478 km and is constructing 531 km. IsDB together with others such as Kuwait Fund, SFD, OPEC Fund and Abu Dhabi Fund, will propose US\$250-300 million for the Western Europe-Western China Road Corridor (CAREC Corridor 1b).
- **Kyrgyz Republic.** ADB approved a US\$25.6 million grant to finance the Kyrgyz component of the CAREC Regional Road Corridor Improvement Project on 24 October 2007. The Project will rehabilitate 150 km of the road from Sary-Tash to the Tajik border, which is connecting the PRC, Kyrgyz Republic, and Tajikistan along CAREC Transport Corridor 5. IsDB approved a US\$17.8 million loan to finance the reconstruction of the Osh-Sary-Tash-Irkeshtam road in 2007. ADB is preparing a MFF to finance the improvement of the Bishkek-Torugart road for approval in 2008. EBRD is exploring the possibility to cofinance this project. IsDB plans to provide loans for the reconstruction of the Taraz-Talas-Suusamyr road and the construction of part of the Issyk-Kul ring road. The World Bank is preparing a US\$20 million grant to finance the improvement of the Osh-Isfana road for approval by 2009. This will be done in collaboration with EBRD, IsDB and the European Union that are among those requested by the Government to cofinance the project. IsDB is financing the second phase of the Talas-Taraz-Suusamyr Road Project (25 km) and is planning with the Government to arrange a meeting with potential cofinanciers for financing of the second phase of the Osh-Sarytash-Irkishtam Road and Talas-Taraz-Suusamyr Road. IsDB will continue to work with ADB on cofinancing possibilities for Bishkek-Torugart Road (CAREC Corridor 1c), when the feasibility study is ready.

- **Mongolia.** ADB approved a US\$37.6 million grant for Phase I of the Western Regional Road Corridor Development Project on 26 February 2008. The Project will develop 431.2 km road from the PRC border to the Hovd province in the western region. Phase 2 of the Project, which will involve construction of the remaining 317.2 km road from Hovd to the Russian Federation border, is scheduled for processing by 2010. In March 2008, the exchange of notes was signed between Japan and Mongolia for a concessional loan (US\$280 million equivalent) to finance a new international airport in Ulaanbaatar.
- **People's Republic of China.** ADB approved a US\$150 million loan on 13 December 2007 to improve 296.5 km of the road section between Korla and Kuqa on the highway linking Urumqi to Kashi in Xinjiang. ADB is exploring an investment for the Xinjiang urban transport and environmental improvement project in 2009.
- **Tajikistan.** ADB approved a US\$40.9 million loan and a US\$12.5 million grant for the Tajikistan component of the CAREC Regional Road Corridor Improvement Project in October 2007. The Project will rehabilitate a 120 km road from Nimich to the Kyrgyz border along CAREC Transport Corridor 5. EBRD plans investments amounting to US\$4 million in 2008 and US\$2 million in 2009 for road maintenance development. IsDB plans investments amounting to US\$9.3 million in 2008 for reconstructing the Kulyab-Khalaikum road. ADB is preparing loans and grants for the CAREC Transport Corridor III Project, which will improve the road from Dushanbe to the Uzbekistan border.
- **Uzbekistan.** ADB approved a US\$75.3 million loan for the CAREC Regional Road Project in December 2007 to improve a 131 km section of the highway that extends from the Kazakh border in northern Uzbekistan to Afghanistan and Turkmenistan in the south along CAREC Corridor 2 and 6a. ADB plans to provide loans to finance a road project in 2009 and a railway project in 2010.

### C. Nonlending Activities

6. Major nonlending activities with external assistance since the Senior Officials' Meeting in September 2007 included:

- ADB approved technical assistance (TA) in the amount of US\$500,000 to help develop a cross-border agreement between PRC, Kyrgyz Republic, and Tajikistan in September 2007. The TA will help remove nonphysical barriers to regional trade and transport and facilitate smooth trans-border movement of people, goods and vehicles.
- EBRD approved two TAs for Kazakhstan: (i) the preparation and transaction advisory services for Almaty-Horgos Road as a public-private partnership (€300,000) and (ii) the Prefeasibility Study on Almaty-Issyk-kul Road Project (US\$150,000).
- The exchange of note was signed between Japan and Tajikistan on 21 December 2007 for the provision of a \$0.6 million grant to finance the detailed design of the Kurgan Tyube-Dusti Rehabilitation Project, following US\$12.6 million grant financing of the road improvement between Dusti-Nizhni Piyanj.
- EBRD approved a TA of US\$800,000 to develop a road maintenance development plan for Tajikistan in the first quarter of 2008.
- The World Bank continued its study on performance measurement of selected major transport corridors in Central Asia. The study aims to develop a quantifiable set of



indicators for Central Asia to compare regional performance in trade facilitation and transport with international standards. Four rounds of measurements were planned from 2007 to 2008. The first and second rounds were undertaken in August and November 2007 respectively. The results of the second round of measurements are being analyzed and will be released in mid 2008.

- USAID has provided US\$350,000 for studies to monitor the performance of trade corridors linking Central Asia with South Asia through Afghanistan and Pakistan. The Trust Fund is managed by the World Bank.
- Planned TAs for 2008 amount to about US\$2 million, comprising US\$1.7 million for preparing regional road and railway projects and US\$300,000 for regional trade links. IsDB plans a TA in the amount of US\$400,000 to finance a feasibility study on the Kandahar-Spin Boldak railway in Afghanistan. The World Bank is planning a regional TA of US\$300,000 to strengthen trade links between Central Asia and Afghanistan.
- US\$3.6 million of TAs is programmed from 2009–2010. ADB plans a number of TAs for Kazakhstan, the Kyrgyz Republic, and Mongolia while IsDB plans feasibility studies on the Kafarnigan-Yavan Railway and the Kandahar-Spin Boldak Railway in 2009.

7. An updated list of external assistance on investment and TA projects in the CAREC transport sector for 2007-2010 is attached.

#### **D. Other Regional Cooperation Initiatives**

8. The Shanghai Cooperation Organization (SCO) member countries, with support from ADB and UNESCAP, made progress toward conclusion of negotiations over the draft Framework Agreement on Facilitation of International Road Transport during the 7<sup>th</sup> Negotiating Meeting held on 18–21 December 2007 in Beijing, PRC. The 8<sup>th</sup> Negotiating Meeting is scheduled for 24–27 June 2008 in the Kyrgyz Republic. The SCO member countries are conducting a study to prepare the Annexes to the Agreement. The team for finalizing the CAREC TTFS has maintained close coordination with the SCO secretariat.

## **II. Next Steps**

9. The TSCC will continue to undertake the following tasks in the 2008 Work Program as agreed upon during the 7<sup>th</sup> TSCC:

- Implementation of the short-term actions recommended in the Action Plan of the CAREC Transport and Trade Facilitation Strategy;
- Preparation of the Transport Sector Report Update for the Senior Officials' Meeting and Ministerial Conference; and
- Update the external assistance program for regional transport projects.

10. The CAREC TTFS Report is expected to be finalized at a joint Meeting of TSCC and Trade Facilitation and Customs Cooperation Committee (TFCCC) tentatively scheduled for 11–12 June 2008 in Baku, Azerbaijan.

**External Assistance for Regional Cooperation in the Transport Sector in Central Asia Regional  
Economic Cooperation Countries**

**Table 1: Planned Program for Investments, 3<sup>rd</sup> Quarter 2007–2010**

Project Title		Country Involved	Lending Agency	Amount (US\$ million)
<b>2007 APPROVED</b>				
1	Road Network Development Project 1 (Bala Murghab to Leman)	AFG	ADB	176.0
2	MFF <sup>4</sup> - Road Network Development Program, Project 1	AZE	ADB	200.0
3	Xinjiang Regional Road Improvement	PRC	ADB	150.0
4	Reconstruction of the Osh-Sary-Tash-Irkeshtam Road	KGZ	IsDB	17.5
5	CAREC Regional Road Corridor Improvement	KGZ/TAJ	ADB	79.0
6	CAREC Regional Road	UZB	ADB	75.3
<b>Subtotal approved for 2007</b>				<b>697.8</b>
<b>2008 APPROVED</b>				
1	Rail Trade and Transport Facilitation	AZE	WB	450.0
2	Western Regional Road Corridor Development Project, Phase I	MON	ADB	37.6
3	New Ulaanbaatar International Airport Construction Project	MON	JBIC	280.0
<b>Subtotal approved for 2008</b>				<b>767.6</b>
<b>2008 PLANNED</b>				
1	MFF - Road Network Development Program, Project 1	AFG	ADB	80.0
2	MFF - Road Network Development Program, Project 2	AZE	ADB	50.0
3	Baku to Samur Road	AZE	EBRD	49.0
4	Construction of Ujar–Zardab–Aghdjabedi Highway	AZE	IsDB	35.0
5	Construction of Expressway along the Southern Corridor	AZE	WB	300.0
6	Xinjiang Municipal Infrastructure and Environmental Improvement	PRC	ADB	150.0
7	CAREC Transport Corridor I, Project 1	KAZ	ADB	100.0
8	Construction of the Almaty Ring Road	KAZ	IsDB	25.0
9	South-West Corridor (Aktobe-Kyzylorda Oblast - Kyzyl-Orda) – Project 1	KAZ	WB	150.0
10	MFF - CAREC Transport Corridor I (Bishkek-Torugart Road) Project	KGZ	ADB	20.0
11	Osh-Isfana Road Rehabilitation	KGZ	EBRD	35.0
12	Bishkek-Naryn-Torugart Road Rehabilitation	KGZ	EBRD	20.0
13	Reconstruction of Taraz–Talas–Suusamyr Road (Phase II)	KGZ	IsDB	10.0
14	Road Maintenance Development	TAJ	EBRD	4.0
15	Western Europe-Western China (Shymkent-TGaraz-Korday) (CAREC 1b)	KAZ	IsDB	150.0
16	Reconstruction of Shagon-Zigar Road (Phase III)	TAJ	IsDB	17.6
<b>Subtotal planned for 2008</b>				<b>1,195.6</b>
<b>2009 INDICATIVE PROJECT LIST<sup>5</sup></b>				
1	Kabul–Jalalabad Road (alternate alignment)	AFG	IsDB	10.0
2	Kabul–Jalalabad Road (alternate alignment)	AFG	Saudi	40.0
3	Baku to Samur Road	AZE	EBRD	50.0
4	East-West Corridor Improvement	AZE	WB	500.0
5	Xinjiang Urban Transport and Environmental Improvement (formerly Xinjiang Urban Transport Infrastructure Development)	PRC	ADB	100.0
6	South-West Corridor (Kyzyl-Orda - Shymkent) – Project 2	KAZ	WB	350.0
7	MFF - CAREC Transport Corridor I (Bishkek-Torugart Road), Project 2	KGZ	ADB	30.0
8	Reconstruction of the Osh-Sarytash-Irkeshtam Road (Phase III)	KGZ	IsDB	15.0
9	Construction of the Bishkek–Torugart Road	KGZ	IsDB	12.0
10	National Road Rehabilitation (Osh-Isfana)	KGZ	WB	20.0
11	Road Maintenance Development	TAJ	EBRD	2.0
12	Road Development	UZB	ADB	100.0
13	CAREC Transport Corridor III (TAJ/UZB)	REG	ADB	100.0
<b>Subtotal planned for 2009</b>				<b>1,329.0</b>

<sup>4</sup> MFF – Multitranchise Financing Facility

<sup>5</sup> Processing of projects in 2009 and 2010 will depend on further discussion with concerned Governments and the availability of financing.

Project Title		Country Involved	Lending Agency	Amount (US\$ million)
<b>2010 INDICATIVE PROJECT LIST</b>				
1	Road Corridor	AFG	ADB	100.0
2	CAREC Transport Corridor 5 and 6c	AFG/PAK	ADB	150.0
3	North-South Corridor Improvement	AZE	WB	500.0
4	CAREC Transport Corridor I, Project 2	KAZ	ADB	100.0
5	Almaty-Issyk-Kul Road Construction	KAZ/KGZ	EBRD	283.0
6	MFF - CAREC Transport Corridor I (Bishkek-Torugart Road), Project 3	KGZ	ADB	40.0
7	Regional Customs Modernization and Infrastructure Development II	KGZ/TAJ	ADB	50.0
8	Bishkek-Naryn Torugart Road	KGZ	IsDB	15.0
9	Taraz-Talas-Suusamyr Road	KGZ	IsDB	10.0
10	Western Regional Road Corridor Development Project, Phase II	MON	ADB	40.0
11	Regional Railway Improvement Project	TAJ	ADB	25.0
12	Railway Development Project	UZB	ADB	50.0
13	Regional Customs Modernization	KAZ/KGZ/TAJ/UZB	ADB	100.0
14	CAREC Transport Corridor III, Phase II	TAJ/UZB	ADB	100.0
<b>Subtotal planned for 2010</b>				<b>1,563.0</b>
<b>TOTAL (2007–2010)</b>				<b>5,553.0</b>

**Table 2: Planned Program for Technical Assistance, 3<sup>rd</sup> Quarter 2007–2010**

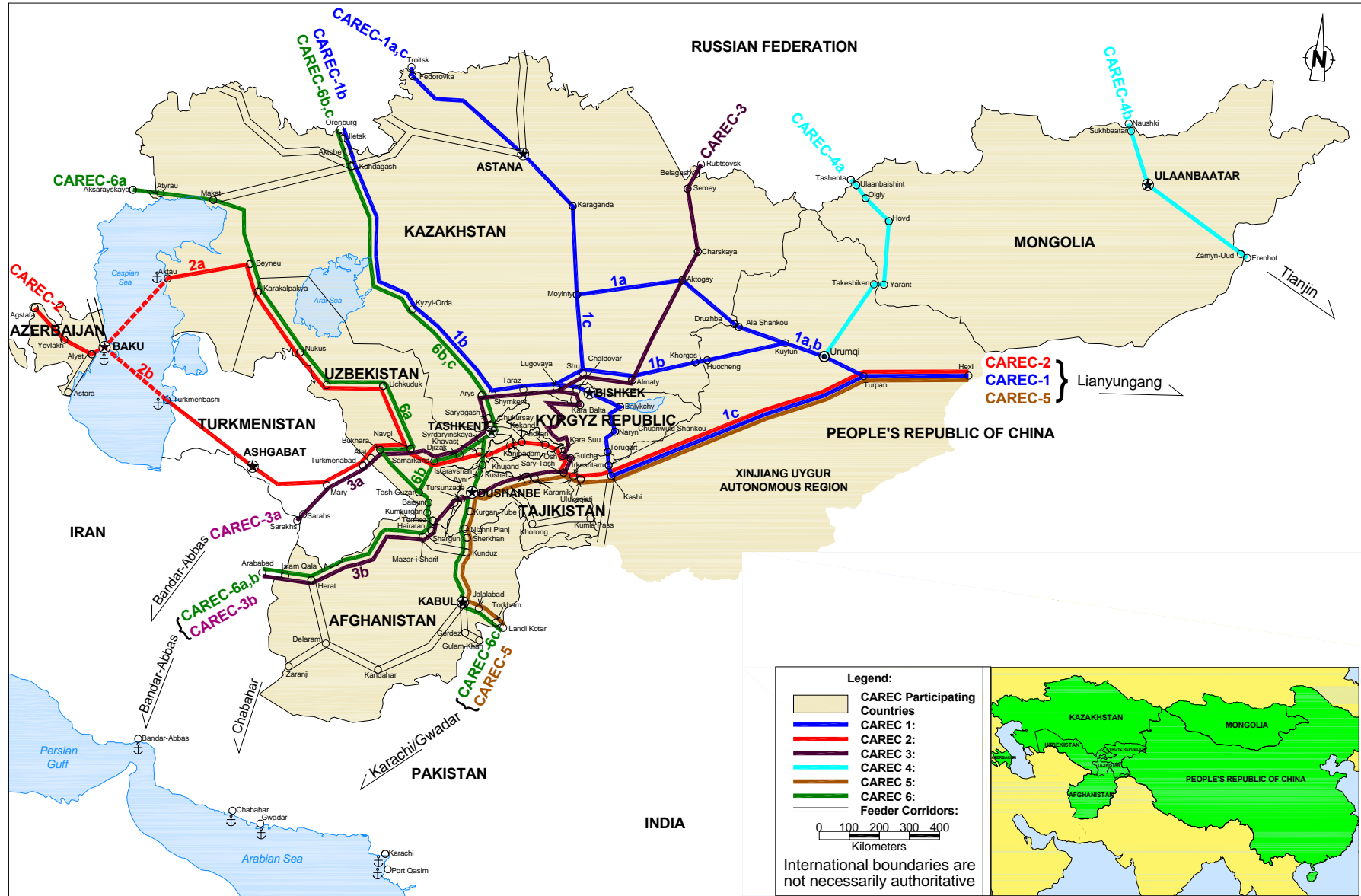
Project Title		Country Involved	Donor Agency	Amount (US\$'000)
<b>2007 APPROVED</b>				
1	Preparation and Transaction Advisory Services for the Almaty-Horgos Road as a Public-Private Partnership <sup>6</sup>	KAZ	EBRD	2,361.0
		KAZ	EBRD	150.0
2	Prefeasibility Study on Almaty-Issyk-kul Road Project			
3	Detailed Design of the Kurgan Tyube-Dusti Rehabilitation Project	TAJ	JICA	600.0
4	Cross-Border Agreement among the PRC, Kyrgyz Republic and Tajikistan	REG	ADB	500.0
5	Monitoring of Trade Corridor Performance between Central Asia and South Asia	REG	WB	<b>350.0</b>
<b>Subtotal approved for 2007</b>				<b>3,961.0</b>
<b>2008 APPROVED</b>				
1	CAREC Transport Corridor I (Bishkek-Torugart Road)	KGZ	ADB	150.0
2	Road Maintenance Development Plan	TAJ	EBRD	800.0
<b>Subtotal approved for 2008</b>				<b>950.0</b>
<b>2008 PLANNED</b>				
1	Preparation of Feasibility Study for Kandahar-Spin Boldak Railway	AFG	IsDB	400.0
2	Preparing the CAREC Regional Road Project	KAZ	ADB	150.0
3	Preparing the CAREC Transport Corridor III (Dushanbe-Uzbekistan Border Road) Project	TAJ/UZB	ADB	650.0
4	Railway Sector Investment	UZB	ADB	500.0
5	Central Asia – Afghanistan Trade Links	REG	WB	300.0
<b>Subtotal planned for 2008</b>				<b>1,600.0</b>
<b>2009 PLANNED</b>				
1	Transport Sector Strategy	KGZ	ADB	800.0
2	Western Regional Road Corridor Development Project, Phase II	MON	ADB	800.0
3	Feasibility Study for Kafarnigan–Yavan Railway	TAJ	IsDB	250.0
4	Caucasus Regional Transport	REG	ADB	800.0
5	Preparation of Feasibility Study for Kandahar-Spin Boldak Railway	AFG	IsDB	<b>400.0</b>
<b>Subtotal planned for 2009</b>				<b>3,050.0</b>
<b>2010 PLANNED</b>				
1	Regional Road Project II	KAZ	ADB	500.0
<b>Subtotal planned for 2010</b>				<b>500.0</b>
<b>TOTAL (2007–2010)</b>				<b>10,061.0</b>

Notes: The external assistance program needs to be updated from time to time, as appropriate.

ADB-Asian Development Bank; AFG-Islamic Republic of Afghanistan; AZE-Azerbaijan; EBRD-European Bank for Reconstruction and Development; IsDB-Islamic Development Bank; KAZ-Kazakhstan; KGZ-Kyrgyz Republic; MON-Mongolia; PRC-People's Republic of China; TAJ-Tajikistan; UZB-Uzbekistan; WB-World Bank.

<sup>6</sup> The approved amount is € 1,500,000, which was converted to US\$ 2,361,000 by using the exchange rate of US\$1.574: 1 € on 7 April 2008.

## Six CAREC Transport Corridors





# **Regional Trade Facilitation and Customs Cooperation Program Status Report**

**Senior Officials Meeting  
on Central Asia Regional Economic Cooperation  
24–25 April 2008  
Baku, Azerbaijan**

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## I. INTRODUCTION

1. The regional trade facilitation program initially comprised seven Asian Development Bank (ADB) developing member countries, namely, Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, People's Republic of China (PRC), Tajikistan, and Uzbekistan.<sup>1</sup> Afghanistan later joined Central Asia Regional Economic Cooperation (CAREC) in 2005.<sup>2</sup> The program is coordinated by the Customs Cooperation Committee (CCC) which consists of the heads of customs administrations of the participating countries.<sup>3</sup>

2. Following the approval of the joint Transport and Trade Facilitation Strategy at the 6<sup>th</sup> Ministerial Meeting in Dushanbe in November 2007, the mandate of the trade facilitation and customs cooperation program (the Program) was expanded from concerted customs reform and modernization, to include integrated trade facilitation approach through interagency cooperation; and efficient regional trade logistics development through public-private partnerships.

3. The CCC will continue to meet. However, mandates of a broader Trade Facilitation and Customs Cooperation Committee (TFCCC) will be initiated which will include representatives of transport and trade facilitation coordination bodies from CAREC participating countries. Corridor monitoring will be initiated along two corridors to pilot test the methodology. The pilot corridors will be selected on the basis of proposals from the CAREC countries.

4. Stakeholder consultations were launched in January–February 2008<sup>4</sup> and a joint seminar of the CAREC Transport Sector Coordination Committee (TSCC) and TFCCC was held in Tashkent in January 2008.

5. The Program will continue to work in existing priority areas of customs reform, particularly in harmonization of custom procedures and documentation, automation and data exchange, joint customs control, risk management, post-entry audit, and customs intelligence, and regional transit development. The Program will introduce an integrated trade facilitation approach, focusing on the establishment of national transport and trade facilitation committees, support priority trade facilitation investments for the designated CAREC transport and economic corridors, and one-stop or single electronic window services. The regional trade logistics development part of the Program will support national and regional level trade logistics assessments and establishment of a regional forum, as well as project finance through public-private partnerships.

6. To meet trade facilitation objectives, CCC emphasized the need to identify performance targets or indicators with clear time horizons (short-, medium-, and long-term) that reflect an integrated trade facilitation approach, as well as mechanisms for monitoring performance. Existing performance monitoring methodologies of other multilateral institutions would also help identify bottlenecks along the economic corridors.

7. This report provides an update of major initiatives since November 2007 and highlights planned activities under priority areas of TFCCC.

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<sup>1</sup> Turkmenistan has been attending the CCC meeting and other activities on regular basis

<sup>2</sup> Joint Ministerial Statement, Fourth Ministerial Conference on CAREC, Bishkek, Kyrgyz Republic, November 2005.

<sup>3</sup> The CCC endorsed a Common Action Plan in its First Meeting in Urumqi, PRC in August 2002.

<sup>4</sup> ADB Mission visited the PRC, Uzbekistan, Kyrgyz Republic and Kazakhstan.



## **II. PROGRESS AND PROPOSED ACTIVITIES**

### **A. Concerted Customs Reform and Modernization**

8. The TFCCC made good progress in a number of priority areas during the 2006–2007 period. Highlights of the activities and major initiatives under each priority area are as follows:

#### **1. Harmonization of Custom Procedures and Documentation**

9. Kyrgyz Customs considers a focus on automation to be of great use because of the accompanying reengineering of procedures to meet international standards, unification of customs procedures, data transfer and information exchange. Kyrgyz Customs has engaged a contractor to provide consultancy services on systems development. ADB loan funds will be devoted to the identified priorities, i.e. electronic declaration, modern database, internal and external information exchange, as well as components for the next phase and procedural issues in 2008.

10. Azerbaijan Customs has improved its regulatory framework by enacting a new Customs Code that complies with World Customs Organization (WCO) and other international conventions. It has also implemented the changes in border crossing procedures that were recommended by another multilateral institution. Tajikistan Customs is modernizing its customs in line with international standards and has organized a Bureau of Modernization to implement this.

#### **2. Automation and Data Exchange**

11. Uzbekistan Customs and Kyrgyz Customs are preparing an agreement on Single Information Space (UAIS), as well as a protocol on data exchange. Uzbekistan Customs is currently developing the data specifications and resolving technical and legal issues and is awaiting ADB assistance for hardware procurement. Azerbaijan Customs has installed a simplified automated system of notification where all required information on customs operations is electronic.

12. The customs authorities of the PRC and Kazakhstan commenced their data sharing operation with an agreement to access PRC custom's e-Port system. The two parties are also testing mutual recognition of manifests, in which there is an exchange of information on goods and vehicles between customs officials on both sides who fill up the same two copies of the manifest. Stamps and seal samples are also exchanged.

#### **3. Joint Customs Control**

13. The customs authorities of Mongolia and the PRC had two rounds of bilateral discussions on joint customs control and a pilot will start at selected border crossings. In view of positive results of the pilot joint customs control projects along the Kazakhstan and PRC border crossings, both countries are moving forward for more joint customs controls at additional border crossings.

#### **4. Regional Transit Development**

14. Kazakhstan Customs introduced a "safe packet" system following a Government decision in August 2007. It is based on similar systems in use in Russia and Belarus. The system has

been pilot tested at the Kazakhstan and PRC border starting from October 2007, at Kazakhstan and Kyrgyz border in October 2007, and in January 2008 at the Uzbekistan border. The intended benefits of the system are elimination of unauthorized access to customs import<sup>5</sup> and transit documents; reduction in interference with cargoes in transit; increased revenue collection; and reduced corruption. The pilots showed that safe packets combined with electronic tags and handheld electronic tools at control points have successfully secured documents and reduce delays. Kazakhstan Customs suggests that the safe packet be introduced to neighboring countries as well. Kazakhstan Customs is willing to share its approaches and experiences. The first such trial will be in Kyrgyz Republic with a targeted pilot by end of March 2008. ADB is providing technical assistance both on the implementation of the safe packet program as well as performance monitoring.

15. Azerbaijan is implementing a transparent transit system where documents are assessed quickly, and a physical examination is undertaken. It has four mobile devices for non-intrusive cargo examination.

## **B. Integrated Trade Facilitation Approach**

### **1. Establishment of National Transport and Trade Facilitation Committees**

16. A joint seminar of CAREC TSCC and TFCCC was held in Tashkent in January 2008. The Workshop is the first such event where transport, trade, and customs officials came together to discuss a joint transport and trade facilitation program, which is built around the CAREC transport and trade corridors. At the seminar, a UNESCAP participant shared experiences regarding the establishment of national transport and trade facilitation committees, and indicated that depending on the situation, countries can adopt two different structures in forming such committees, either fully integrating the trade and transport functions, or keeping trade and transport separate but with an effective coordination mechanism.

17. Among CAREC countries, Mongolia and Kyrgyz Republic have been recognized as having established national transport and trade facilitation committees. At the workshop, Azerbaijan, the PRC, and Kazakhstan also said they have similar mechanisms. Azerbaijan's committee is headed by the deputy head of the customs. The PRC's committee was established per requirement of the Cross Border Transport Agreement of the Greater Mekong Sub-regional Cooperation program, headed by the Ministry of Communications. Kazakhstan's committee is led by the Ministry of Transport and Communications.

### **2. Supporting Priority Trade Facilitation Investments for the Designated CAREC Transport and Economic Corridors**

18. Consultants being engaged by the CAREC TSCC organized field trips to each CAREC countries to identify investment proposals both for transport and trade facilitation projects.

### **3. One-Stop and Single Electronic Window Services**

19. The pragmatic approach to Single Window by the Association of Southeast Asia Nations (ASEAN) may be appropriate for CAREC. ASEAN's starting point is an e-document platform led

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<sup>5</sup> Only those importations that are released from Customs control at the border, with suspension of duty payment, for subsequent warehousing or clearance inland.

by a leading public sector agency<sup>6</sup> and with possibly private sector partnership. ASEAN members each will set up a National Single Window first.<sup>7</sup> All 10 members' National Single Windows are to operate in an integrated manner by 2012. The ASEAN approach is based on international standards in business, data analysis and processing,<sup>8</sup> supported by ICT applications. Platforms may be managed by the private sector. National Single Windows in operation are Malaysia, Singapore; there are pilots in Indonesia, Thailand, Philippines, and a pilot ASEAN Single Window was initiated when Thailand and the Philippines exchanged certain forms of export declarations.

20. Azerbaijan is implementing a single-stop or unified method of control where Customs coordinates the entry point. Kyrgyz Republic began the groundwork for a Single Window in 2006 with the issuance of a Presidential Decree that introduced in-depth integrated control. Although the agencies involved still prefer to retain their respective functions and physical control, a virtual database is needed that will show the advantages of electronic unified documents and produce qualitative improvements in the Single Window. Kazakhstan Government has been coordinating Customs, phytosanitary, quarantine, radiology, and other agencies for a Single Window.

## **C. Regional Trade Logistics Development**

### **1. National and Regional Level Trade Logistics Assessments and Establishment of a Regional Forum**

21. Trade logistics studies have been conducted for Xinjiang Uygur Autonomous Region (XUAR) of the PRC, Mongolia, and Inner Mongolia Autonomous Region (IMAR) of the PRC. Currently, ADB consultants are finalizing trade logistics studies for Tajikistan and Kyrgyz Republic. Studies are in progress in Kazakhstan and Uzbekistan. Meanwhile, a technical assistance for pre-feasibility analysis of trade logistics development and investment is being implemented for XUAR.

22. A high-level seminar will be held in April 2008 before the Baku Senior Official Meeting (SOM) to provide a snap shot of the existing development of the trade logistics industry in the region and identify common policy issues. A large scale CAREC conference on trade logistics development will be held in Urumqi, XUAR in June 2008. It will present country studies and organize break out sessions to discuss various policy, operational and investment issues, including public-private partnerships and cross border cooperation for trade logistics development in the region.

### **2. Project Finance through Public-Private Partnerships**

23. Private sector participation and investment in physical infrastructure was the key theme at an ADB Institute sponsored CAREC seminar in Tokyo during 5–7 March 2008. The seminar indicated that effective reforms are needed for establishment of enabling policy environment and legal and governance frameworks for public-private partnerships (PPPs) in transport (including the transport and trade facilitation), and energy sector related infrastructure. Trade logistics is a promising area for PPPs where government can play significant roles in basic

<sup>6</sup> Usually being the Ministry of Trade or Customs.

<sup>7</sup> a clearance system that enables a single submission of information, single and simultaneous processing of data, and single point of decision-making through close agency collaboration

<sup>8</sup> United Nations electronic Documents (UNeDocs) is an initiative carried out by United Nations Centre for Trade facilitation and Electronic Business (UNCEFACT) in close collaboration with UNECE.

infrastructure such as road, water and electricity connections, as well as customs modernizations, and private sector can invest in shipping, warehousing, and logistics operations.

#### **D. Performance Measurement**

24. The trade facilitation work in support of CAREC corridors will be centered on performance monitoring. Trade facilitation results will be measured using a comprehensive approach, which combines existing methodologies such as those for trade logistics industries, the UNESCAP Time/Cost-Distance methodology which collects data on cost and time associated with the transit transport process, the WCO Time-Release study which measures the average time taken between the arrival of goods and their removal from Customs, and the WB Transport Corridor Performance Indicators which quantify the impediments to international trade and transport in trade corridors.<sup>9</sup>

25. At the joint seminar of CAREC TSCC and TFCCC in Tashkent in January 2008, representatives from the United Nations Economic and Social Commission for Asia and Pacific (UNESCAP), World Bank and the WCO presented their approaches in performance monitoring. UNESCAP's time/cost-distance methodology serves as the starting point for the World Bank's more detailed survey analyses. WCO's time release methodology focuses on customs functions and transit. It is most likely that along the CAREC corridor, performance data will be collected and compared with established benchmarks at regular intervals using UNESCAP's methodology. WCO's methodology will be selectively utilized at key border crossings to identify key bottlenecks. World Bank's methodology can be used when a CAREC member country requires more detailed analysis on root-causes of transport and trade issues.

### **III. THE WORK PLAN**

#### **A. Key Activities Envisaged**

26. Key activities this year for TFCCC will build on past successes in concerted customs reform and modernization, and will try to achieve concrete progress in areas of data exchange, joint processing, and regional transit development, including bilateral initiatives. Further, TFCCC will organize activities for integrated trade facilitation, such as establishment of national trade and transport facilitation committees, and introduction of the pragmatic single window approach similar to that adopted in ASEAN, which can serve as a platform for integrated trade facilitation. After completion of a series of national trade logistics studies and recognition of common policy actions, TFCCC will identify a list of potential investment projects, including those through public-private partnerships, for trade logistics development.

27. Investment projects, technical assistance and policy reform actions promoted by TFCCC will be guided by the joint trade and trade facilitation strategy. To achieve effective management for development results, TFCCC will establish a system for performance monitoring along CAREC corridors.

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<sup>9</sup> Another method from the World Bank, the Trade and Transport Facilitation Audit provides a systematic framework for the review of the trade and transport situation and analyzes the difficulties, develops a comprehensive set of remedial actions for trade and transport facilitation and enables an understanding of supply chain management constraints.

28. TFCCC will seek for technical support from WCO, UNESCAP, UNECE, WB, etc., in sharing experiences in areas related to performance monitoring, technical standards for single window, as well as establishment of Trade and Transport Facilitation Committees. TFCCC will also cooperate with Singapore IE and China Customs in joint funding and organizing training courses and develop knowledge products related to TFCCC's main areas of interests.

## **B. Resources to Support Transport and Trade Facilitation Strategy Implementation**

29. To support the joint Transport and Trade Facilitation Strategy, a regional TA for Integrated Trade Facilitation Support for \$3 million was approved by ADB in November 2007. The expected outputs of the RETA include:

- (i) strengthened customs cooperation as the core program of the trade facilitation strategy;
- (ii) expanded scope of the work program to address broader issues of trade facilitation;
- (iii) support for logistics assessments and planning focusing on priority corridors and developing national and regional implementation strategies to facilitate trade;
- (iv) focusing of trade facilitation efforts on the CAREC transport corridors;
- (v) adoption of a results-based approach in monitoring time and cost savings as the key indicators of the program;
- (vi) support for bilateral initiatives among CAREC countries with sharing of experience;
- (vii) enhanced partnership between CAREC's participating multilateral institutions (MIs), and key international agencies supporting customs reform, trade facilitation, and logistics development in the region;
- (viii) dialogue and cooperation with the private sector which would help formulate and utilize trade facilitation measures;
- (ix) capacity building activities in areas of integrated trade facilitation as well as in broader areas related to trade and transport facilitation;<sup>10</sup>
- (x) knowledge products such as policy and strategic papers, publications of analytical papers and their presentation at conferences, on issues of customs cooperation, integrated trade facilitation, and trade logistics.

30. The RETA will be implemented for 3 years starting in January 2008 and completing in December 2010.

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<sup>10</sup> ADB is running a set of streamlined training programs through the CAREC Institute. The Institute can also play an instrumental role in disseminating information on the monitoring of transport corridors through the portal, forums, and publications. Part of the Institute's role is to support think tanks in the region which could play a role in analyzing the issues and problems accompanying improvements in the passage of vehicles on the monitored transport corridors.



# **Trade Policy Coordinating Committee Status Report**

**Senior Officials' Meeting  
on Central Asia Regional Economic Cooperation  
24 – 25, April 2008  
Baku, Azerbaijan**

## **CAREC Trade Policy Coordinating Committee Status Report for the April 2008 Senior Officials' Meeting**

### **I. INTRODUCTION**

1. At the request of the 2<sup>nd</sup> Ministerial Conference (MC), the April 2004 Senior Officials Meeting (SOM) discussed the possible objectives, mandate, terms of reference, and work plan for the CAREC Trade Policy Coordinating Committee (TPCC). It was agreed that the TPCC should help all CAREC member countries adopt more open trade regimes, so as to facilitate both intra- and inter-regional trade.
2. The TPCC was the first CAREC committee established whose focus would be exclusively on policies, not projects. The IMF agreed to take the lead in organizing the work of the TPCC.
3. Since its establishment, the TPCC held eight meetings. The reports of the first five meetings are summarized in the Trade Policy Coordinating Committee Status Report that was submitted to the October 2006 Senior Officials' Meeting (SOM) and the reports of the sixth and seventh meetings are summarized in the Trade Policy Coordinating Committee Status Report that was submitted to the November 2007 SOM. This report focuses on the eighth TPCC meeting.

### **II. EIGHTH TPCC MEETING**

4. The eighth TPCC meeting was held in Bishkek on April 2, 2008. During the meeting, delegates discussed the first draft of the Trade Policy Strategic Action Plan (TPSAP), were briefed on the topic of aid for trade and its monitoring, discussed possible areas of further work on border trade issues, and gave guidance on priorities to the TPCC's work program.

#### **A. Trade Policy Strategic Action Plan**

5. The Fifth Ministerial Conference endorsed the Comprehensive Action Plan (CAP) as a strategic document to guide CAREC's activities and initiatives. In addition, the Ministers at the conference recommended that medium-term sector strategies in primary sectors of energy, trade, and transportation be developed to make the CAP operational. Subsequently, the Sixth Ministerial Conference instructed the TPCC to prepare the TPSAP with a view to having the first draft ready for discussion at the Spring 2008 meeting of the TPCC. Accordingly, the first draft of the TPSAP was presented to and discussed by the delegates at the eighth meeting of the TPCC.

6. In line with the guidance provided earlier, the first draft of the TPSAP envisages:
  - vigorous pursuit of WTO accession negotiations while ensuring that regional trade agreements remain consistent with this objective. CAREC activities to support WTO accession are to include advisory projects for candidate countries, training seminars on the accession process, and a workshop where CAREC WTO members and candidates would discuss the experience of negotiations;
  - elimination of remaining quantitative restrictions on exports and imports, and simultaneous removal of the related documentation or administrative procedures.

- reduction and simplification of trade taxes through uniform application of VAT and excises on domestic and traded goods; elimination of miscellaneous charges, fees, and special taxes; bringing down the average tariff rate to 10 percent or less; capping the maximum tariff rate at 20 percent; and reducing non-zero tariff bands to about 3;
- capacity-building activities to facilitate WTO accession and to deepen understanding of the improvements needed in the general institutional environment to support intraregional and international trade. With regard to the latter, the TPSAP proposes a study to identify main institutional shortcomings which impede trade-openness in CAREC countries, and a training seminar to discuss the global experience on the link between institutions and trade; and
- close coordination of TPCC and TFCC activities with a view to implementing the recommendations for reduction of transit and border trade barriers that were endorsed by the SOMs in 2006-07.

7. During the eighth TPCC meeting, delegates welcomed the first draft of the TPSAP and agreed with its focus on the three key pillars endorsed by the Ministers: WTO accession; greater trade openness; and capacity building, which are interconnected and reinforce each other. Delegates also supported the emphasis on the principle of “pragmatism with results” recognizing different circumstances of each country and on measurable performance indicators. A number of broad suggestions for modification and refinement of the document were made, including a more expressive title for the document; differentiating short-term actions on trade openness and capacity building from the long-term objective of WTO accession; and more emphasis on capacity building on WTO accession related issues. Some delegations also saw a need to recognize the problems that countries undertaking trade liberalization could face related to food security, employment and social impacts, and the promotion of domestic industry. Several delegations emphasized the importance of moving forward expeditiously with the TPSAP. Delegates were of the view that border and transit trade should be covered by the TPSAP. They recommended, however, that the TPCC and the TFCC should coordinate closely in setting performance benchmarks in these areas, especially in customs-related issues where the TFCC has greater expertise.

8. Delegates agreed on the next steps to move forward with the TPSAP. Minor revisions to the TPSAP for factual corrections will be made prior to the SOM in Baku, on April 24-25. Delegates will convey to the TPCC coordinator any further detailed comments they may have by the end of May. A revised draft of the TPSAP will be prepared incorporating the broad suggestions noted above, further suggestions from the SOM, and detailed comments from the TPCC delegates. The revised draft will also propose an indicative timetable for policy actions for discussion at the Fall TPCC meeting. Subsequently, a revised TPSAP that reflects the agreements at the Fall TPCC meeting will be prepared and submitted for endorsement to the senior officials at their Fall 2008 meeting.

## **B. Aid for Trade**

9. The OECD representative presented an update on the Aid for Trade initiative and the joint OECD/WTO monitoring mechanism. The presentation noted that:

- Effective aid for trade can be a critical tool to help developing countries to improve trade capacity, and fully benefit from WTO accession and multilateral liberalization.



Therefore, the OECD and the WTO have joined forces to monitor the implementation of the initiative.

- The results of the first review showed that aid for trade volumes are rising and are being increasingly prioritized in donor and recipient countries, but that the implementation of key aid effectiveness principles remains challenging and that more efforts are needed to ensure effective aid delivery, particularly in regional programs.
- The monitoring of aid for trade is based on surveys to donors and recipients that include quantitative and qualitative information, and its quality and impact depend on how many recipients and donors participate in the surveys.
- The benefits of participating in the monitoring process for CAREC countries include increased visibility towards all key donors, the opportunity to voice concerns in a multilateral context, and more effective and potentially increased aid for trade. The information to be collected to participate in the questionnaire can also be used as a tool to improve national planning on trade development programs.

### **C. Further Work on Border Trade Issues**

10. Following the findings of the paper on border trade prepared by the World Bank and with a view to reforming the border trade regimes in Central Asia, the TPCC made recommendations on operation of border crossing points, on movement of motor vehicles, on movement of people living in contiguous areas, and on movement of goods among contiguous regions.<sup>1</sup> The September 2007 SOM broadly endorsed the TPCC's recommendations and, in view of the concerns expressed by the Uzbek delegation, recommended that their implementation be optional.

11. During the eighth meeting of the TPCC, the World Bank representative presented a note containing proposals for follow up work to the previous study. Based on requests made by the governments of Afghanistan and Mongolia, it was suggested that the study be extended to cover two sets of border crossing points: (i) Afghanistan-Tajikistan and Afghanistan-Uzbekistan; and (ii) China-Mongolia. The World Bank representative indicated that the first work could be done in the coming months, but the feasibility of the second had still to be evaluated, in view of the sparseness of the population along that frontier.

12. The note also presented ideas for two new studies, which could be undertaken if sufficient donor financing was received. These relate to (i) designing a broad cross-border cooperation program that would include trade (including trade in services) and a range of trade-supporting activities, such as business development and tourism in border areas; and (ii) an analysis of trade through channels involving bazaars (which are often located in cross-border areas) that would yield valuable lessons for trade and customs policy. The first proposal was based on a highly successful model in Europe, where municipalities and communities set formal cooperation mechanisms covering a wide range of activities; the second was based on the high volume of trade passing through bazaars that had escaped formal analysis.

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<sup>1</sup> Details on policy recommendations are provided in the Trade Policy Coordinating Committee Status Report that was submitted to the November 2007 SOM.

13. In the discussion, delegates welcomed the proposed work for broad cross-border cooperation based on experience in Europe's border regions and noted the potential for stimulating growth, employment, and trade of goods and services with the support of municipalities and local authorities. It was agreed that the study would be based on empirical work in a few potential regions (based on the offers of support from the Kazakh and Kyrgyz delegations) and the results would be presented to the TPCC before any decisions to extend the work or to make recommendations that could be universally applied. Delegates supported the proposed work on the economic effects of bazaars and their implications for public policy, including in the areas of trade, employment, public safety and revenues. It was agreed that the study would be of a fact-finding and analytic nature and that policy recommendations would be developed only after further TPCC discussions.

### **III. TRAINING SEMINAR**

14. The IMF staff conducted a training seminar for officials from CAREC countries in Bishkek on April 3, 2008 on "Multilateral Trade Liberalization: Recent Developments and Outstanding Issues". The presentations<sup>2</sup> and discussions covered the following topics:

- New developments in the Doha round negotiations;
- Energy issues on the trade liberalization agenda; and
- Liberalization of trade in financial services.

15. The seminar was attended by some 30 participants and well received. Participants expressed interest in having similar seminars on trade policy issues in the future.

### **IV. FUTURE WORK PLAN**

16. The TPCC agreed that its agenda going forward should include:

- (i) presenting the draft TPSAP to the SOM meeting in Baku on April 24-25, 2008 to get endorsement of its policy framework;
- (ii) preparing a revised draft of the TPSAP including an indicative timetable for policy actions for discussion at the Fall 2008 meeting of the TPCC;
- (iii) monitoring of the implementation of the recommendations related to reform of the trade tax systems, that were endorsed by the 5<sup>th</sup> Ministerial Conference, at the Fall 2008 TPCC meeting;
- (iv) preparing the study (led by the IMF) on the preferential trade agreements in the CAREC region based on inputs from member countries; and
- (v) preparing the studies (led by the World Bank) on a broad cross-border cooperation program and on trade through channels involving bazaars.

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<sup>2</sup> The presentations are posted at the ADB's website.

## **V. RECOMMENDATIONS FOR CONSIDERATION TO THE SOM**

17. The TPCC reached agreement to recommend to the SOM in April 2008 that:
- (i) the policy framework presented in the draft TPSAP that was discussed at the eighth TPCC meeting be endorsed;
  - (ii) border and transit trade related policy issues and benchmarks be covered in the TPSAP and related benchmarks be formulated in coordination with the TFCC; and
  - (iii) the revised draft of the TPSAP to be discussed at the Fall 2008 TPCC meeting and to be submitted to the Fall 2008 SOM for endorsement include an indicative timetable for policy actions.



# **Energy Sector Progress Report**

**Senior Officials' Meeting  
on Central Asia Regional Economic Cooperation  
24 – 25, April 2008  
Baku, Azerbaijan**

## REPORT ON ENERGY

1. The purpose of this Report, prepared by the World Bank with contributions from other IFIs involved in CAREC activities, is to capture the developments since the last Senior Officials Meeting in November 2007.

### A. Regional Energy Projects

#### 1. Central Asia South Asia Regional Electricity Market (CASAREM).

2. The four CASAREM Governments (Governments of Afghanistan, Kyrgyz Republic, Pakistan and Tajikistan) met at the 3<sup>rd</sup> CASAREM conference in Kabul in November 2007 and signed a Memorandum of Understanding which:

- agreed on the scope of the CASA 1000 transmission project and confirmed the viability of the CASA 1000 transmission project. The project will transmit 1300 MW of electricity from Kyrgyz Republic and Tajikistan to Afghanistan (300 MW) and Pakistan (1000 MW). The scope of the project was confirmed during the conference: a roughly 750 km High Voltage Direct Current (DC) transmission system between Tajikistan and Pakistan via Afghanistan; a DC to Alternate Current (AC) converter station in Kabul to supply Kabul area; and an AC transmission link between Kyrgyz Republic and Tajikistan to supply Kyrgyz electricity to South Asia via Tajikistan; and the concomitant institutional and legal framework to enable such electricity trade.
- established the Inter-Governmental Council (IGC) to lead the project going forward and provide the policy oversight; (c) agreed to establish the IGC Secretariat in Kabul (which is to shoulder the day to day responsibility of developing the CASA 1000 transmission project further); and (e) last but not least agreed on the method of sharing the financing of the costs. It is expected that the first IGC meeting will be held in April 2008;
- Agreed to continue to seek private sector participation in the development, construction and operation of CASA 1000, while recognizing the difficulty in attracting significant private sector participation. Therefore, private sector participation would be targeted, at least some equity stake, failing which at least as an operations and management contractor;
- Agreed that the CASA 1000 project would be largely funded by the public sector; and in turn requested the participating IFIs (ADB, IsDB and World Bank) to assist with the financing and,
- Agreed to share the financing of the project on the basis of project assets to be built on a country's territory.

3. **Transmission Links for electricity exports** continue to be developed under several projects that would enable electricity trade between Central Asia and South Asia:

4. **Afghanistan-Tajikistan 220kV transmission project.** Evaluation of separate technical proposals is underway for the construction of the Tajik section of 118 km and the Afghan section of 156 km of the transmission line. Contracts are expected to be signed in May 2008 and the implementation period is expected to be about 18 months for the Tajik Section and a bit longer

for the Afghan section. Consultations are underway between Afghanistan and Tajikistan on a PPA which is expected to be signed by June 2008 for delivery of 300MW annually from May to September to Afghanistan.

5. ***Afghanistan and Uzbekistan continue with the implementation of their June 2007 Protocol*** for delivery of 300 MW to Afghanistan upon rehabilitation of the relevant transmission network.

- IsDB is expected to approve in June 2008 \$83 million financing for the 500kV transmission line to connect the Surkhan and Guzar substation (S/S) in Uzbekistan which will enable increasing the export potential to Afghanistan to 150 MW and eventually to 300 MW.
- A high level delegation from Afghanistan visited Uzbekistan in January 2008, to hold further discussions on power imports arrangements and PPA. Uzbekistan requires funding from Afghanistan of \$15 Million USD for the design and construction of the double circuit 220 kV transmission line from the Surkhan S/S to the Afghanistan border, which is likely to be authorized by Afghanistan. A follow up ministerial visit is planned soon to continue discussions.
- A one year extension of the existing power purchase agreement for about 25 MW of electricity for Mazar-e-Sharif was agreed between the two countries.

6. ***Afghanistan's request for accession to the Energy Charter Treaty was approved by the 18<sup>th</sup> Energy Charter Conference held in December 2007 in Istanbul***, which enhances the country's opportunities for energy trade, transit and investments.

7. ***EBRD*** is considering a loan to JSC Kazakhstan Electricity Grid Operating Company (KEGOC) to finance the second stage of modernisation of substations and high-voltage equipment to ensure efficiency, reliability and safety of Kazakhstan's transmission system.

## 2. Generation Projects

8. ***Tajikistan proceeds with the development of its coal resources in an integrated manner.*** Pre-feasibility studies for development of new coal-based generation capacity were completed in January 2008 with financing from the US Trade and Development Agency.

9. ***Two consultants' short-lists*** have been prepared for carrying out an environmental and a technical, economic and financial feasibility study respectively for the construction of the Rogun HPP in Tajikistan.

10. ***Sangtuda I Hydropower Project in Tajikistan.*** The first unit was commissioned in January 2008 and the full capacity is to be installed by end-March 2009. Sangtuda's generation from unit 1 was critical providing additional 100 MW during the energy crisis in winter 2008 in Tajikistan.

11. ***A severe energy crisis in winter 2008 in Tajikistan*** was triggered by a dramatic drop of the water levels of the Nurek reservoir in Tajikistan, due to 25 year low freezing temperatures, which affected 90% of the predominantly hydro-based generation in the country. The World Bank reacted swiftly to support the Government's Energy Emergency Mitigation Action Plan through a \$5million emergency operation package to improve supply of electricity, gas and fuel

oil, along with critically needed equipment for the operations of the electricity and gas grids, with co-financing from ADB (\$1.8 million), UNDP (\$1.8 million) and IsDB (\$0.3 million).

## **B. Energy Sector Strategy**

12. The first draft of the Energy Sector Strategy was presented at the Senior Officials Meeting in November 2007, which subsequently reported to the Ministerial Conference on the progress in strategy preparation. The Ministerial Conference recommended “further country consultations and efforts to finalize the CAREC Energy Strategy...” A new round of consultations with the member countries on a revised version of the Strategy is about to be launched in end-March focusing with priority on China, and Azerbaijan and then on the other member-countries.

## **C. Energy Efficiency and Opportunities Offered by Clean Development Mechanism**

13. ADB, WB and EBRD continue to develop energy efficiency and CDM programs and projects as summarized below.

- ADB will host the third “Asia Clean Energy Forum” at the ADB Headquarters in the Philippines on 3–5 June 2008 with the theme “Investing in Solutions that Address Climate Change and Energy Security.”
- The World Bank is completing the Kyoto Protocol documentation for two carbon finance projects in Uzbekistan. After the October 2007 Tashkent CDM Carbon Forum jointly sponsored by the World Bank and the UNDP, approximately 60 carbon finance projects were offered by various project developers from Uzbekistan to interested buyers. In China, an Emissions Reduction Purchase Agreement (ERPA) was signed on January 3, 2008 for the Bao Steel Group, based on using recovered heat from coke production for electricity generation and heat supply. An ERPA for a similar project with the Bao Tou Iron and Steel Company is expected to be signed this spring. Another ERPA based on energy saving technology for iron and steel production is expected to be signed by June 2008.
- In November 2007 EBRD signed a \$30 million loan agreement with the second largest power plant in Kazakhstan PavlodarEnergo for efficiency improvement and upgrading leading to CO2 emissions reduction. In March 2008, the Government of Kazakhstan and the EBRD agreed on a jointly developed “Sustainable Energy Action Plan,” which promotes the conservation and rational use of energy resources as well as the efficient and sustainable energy supply.

## **D. Enabling Legal and Regulatory Environment for Energy Sector Development**

### **1. CAREC Member Electricity Regulators Forum**

14. A training workshop on tariff setting principles and practices for energy regulators will be conducted in Baku, Azerbaijan in April 2008, co-hosted by Tariff (Price) Council of Azerbaijan and ADB.



**Central Asia Regional Economic Cooperation  
7<sup>th</sup> Energy Sector Coordinating Committee (ESCC) Meeting  
April 23, 2008, Baku, Azerbaijan  
Minutes of the Meeting**

The meeting was attended by delegations from Islamic Republic of Afghanistan, Republic of Azerbaijan, Peoples' Republic of China, Republic of Kazakhstan, Kyrgyz Republic, Mongolia, Republic of Tajikistan and Republic of Uzbekistan. The International Financial Institutions (IFIs) represented were Asian Development Bank (ADB), Islamic Development Bank, and the World Bank. The meeting was co-chaired by the representative of Azerbaijan, Mr. Rasim Mammadov, Head of Apparatus at the Ministry of Energy and Industry of Azerbaijan, and Mr. Charles Feinstein, Energy Sector Manager, Sustainable Development Department for Europe and Central Asia of the World Bank. The list of the delegates who attended the meeting is given in Attachment.

The Agenda for the meeting was confirmed with a modification to include a presentation on the Energy Sector Progress Report since the last SOM in November, 2007. The Progress Report was endorsed by the participants with certain modifications reflecting specific sector developments in member countries.

Following SOM guidance and comments from CAREC countries, a revised and condensed CAREC Energy Sector Strategy (Strategy) was presented. The countries broadly endorsed the focus and the key elements of the Strategy, pointing out that it adequately presents the strategic vision for the sector and related approaches and principles for the Strategy implementation covering relevant dimensions of regional work.

The delegates pointed out that the discussion on water utilization issues should not only consider water-energy nexus aspects – including energy production, irrigation and water supply – but also broader economic, environmental, social and cultural implications. Some of the delegates recommended that the Strategy may make reference to drawing upon the experience of other relevant inter-governmental bodies.

The following aspects were also discussed for inclusion in the Strategy:

- Azerbaijan's longer-term role as a bridge between Central Asia and Europe in terms of export of energy resources.
- Strengthening of aspects related to energy efficiency and clean energy development.
- Review of the international legal framework. Delegates judged this inclusion useful and emphasized the need to highlight the status of entry-into-force of the relevant international agreements and conventions. The revised draft Strategy will also include the fact that accession to such conventions and agreements is a decision of sovereign governments.



- Reporting on progress in implementing the Strategy, while recognized as a key component of the Strategy, will be voluntary and on the basis of national best efforts. Further comments from the ESCC members on the feasibility of supplying relevant data were encouraged.

Delegates provided detailed comments on the appendices relating to projects and were encouraged to harmonize these comments to the extent possible through bilateral discussions. Text will be added to the main body of the Strategy as well as in Appendix 7 to clarify (i) the indicative nature of projects listed there, and (ii) the fact that the inclusion of these projects in the table(s) does not imply commitment or approval.

Delegations also provided updates on progress in implementing their national energy programs. This was complemented by a presentation by the Asian Development Bank on the results of the Third Annual Meeting of the CAREC Members' Electricity Regulators Forum.

#### **Next Steps:**

- The ESCC members are expected to submit to the World Bank in writing any appropriate clarification of their comments expressed at the meeting by May 15, 2008.
- The World Bank would then update the draft Strategy in light of the comments and circulate the revised document back to the ESCC members within a month thereafter with the request that each ESCC member recommend the draft Strategy be tabled for consideration by the next SOM in the Fall of 2008. Countries may seek bilateral consultations with the World Bank in order facilitate this process.
- To ensure continuity of the CAREC energy sector process, the ESCC members present at today's meeting are requested to remain the focal points for handling this matter.
- Future meetings of the ESCC will consider the development of an action plan and related measures to promote further implementation of the Strategy.

**Energy Sector Coordinating Committee Meeting**  
23 April 2008; Baku, Azerbaijan

**LIST OF COUNTRY DELEGATES**  
*(as of 23 April 2008)*

**PARTICIPATING COUNTRIES**

**A. Afghanistan**

1. Mr. Mir Mohammad Sediq Ashan, Deputy Minister, Ministry of Energy and Water

**B. Azerbaijan**

2. Mr. Rasim Mammadov, Head of Apparatus, Ministry of Industry and Energy
3. Mr. Idris Rzabeyov, Head of Oil and Gas Exploitation Department, Ministry of Industry and Energy
4. Mr. Tahir Jafarov, Head of Energetics Department, Ministry of Industry and Energy
5. Mr. Islam Rofibeyli, head of department, "Azerenergy"
6. Mr. Vugar Alekberov, Economic department, SOCAR
7. Mr. Vusal Ahmedov, senior advisor, Ministry of Industry and Energy
8. Ms. Atesh Isayeva, head of sector, Ministry of Industry and Energy
9. Mr. Anar Suleymanov, advisor, Ministry of Industry and Energy
10. Mr. Tofiq Allahverdiyev, head of department, Ministry of Industry and Energy
11. Mr. Mir Mehdi Seyidov, head of renewable energy department, Ministry of Industry and Energy

**C. People's Republic of China**

12. Mr. He Yang, Deputy Director, Power Market Regulation Department, State Electricity Regulatory Commission

**D. Kazakhstan**

13. Mr. Duysenbay N. Turganov, Vice Minister, Ministry of Energy and Mineral Resources

**E. Kyrgyz Republic**

14. Mr. Marat Mamytov, Head of Energy and Gas Department, Ministry of Industry, Energy, and Fuel Resources

**F. Mongolia**

15. Mrs. Sarangerel Purevsuren, Deputy Director, Fuel Policy and Coordination Department, Ministry of Fuel and Energy
16. Mr. Enkhtaivan Gundsamba, Director, Energy Department and Research Division, Ministry of Fuel and Energy

**G. Tajikistan**

- 17. Mr. Akram R. Suleymanov, Deputy Minister, Ministry of Energy and Industry
- 18. Mr. Abdullo Yorov, Head, Energy and Industry Department, Executive Office of the President of Tajikistan

**H. Uzbekistan**

- 19. Mr. Shukhrat Pulatov, Deputy Director General, JSC 'UzbekUgol'
- 20. Mr. Jalolitdin Mastankulov, Lead Specialist, Uzbekneftegaz

**PARTICIPATING MULTILATERAL INSTITUTIONS****A. Asian Development Bank**

- 21. Mr. Hong Wang, Director, Infrastructure Division, CWRD
- 22. Mr. Rune Stroem, Principal Energy Specialist, Infrastructure Division, CWRD
- 23. Mr. David Husband, senior advisor for CAREC, East and Central Asia Department
- 24. Mr. David Kruger, senior regional cooperation specialist, Country Coordination and Regional Cooperation Division, Central and West Asia Department

**B. Islamic Development Bank**

- 25. Mr. Nik Zainal Abidin, director, regional office in Kazakhstan

**C. World Bank**

- 26. Mr. Charles Feinstein, Sector Manager for Energy, Europe and Central Asia Region
- 27. Mr. Loup Brefort, Uzbekistan Country Manager
- 28. Mr. Christian E. Petersen, Lead Economist & CSC for South Caucasus, Sustainable Development Department, Europe and Central Asia Region
- 29. Mr. Venkataraman Krishnaswamy, Advisor, Policy and Strategy, Central Asia Energy Team
- 30. Mr. Nikolay Nikolov, Operations Officer, Central Asia Energy Team
- 31. Mr. Sodik Haitov, Operations Officer, Central Asia Energy Team
- 32. Ms. Malika Saidkhodjaeva, Consultant, Uzbekistan Country Office